

## Message Text

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TO SECSTATE WASHDC IMMEDIATE 2048

C O N F I D E N T I A L SECTION 01 OF 08 LONDON 08099

EXDIS

FOR HILL (S/P) ONLY FROM FRANK

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: SECRETARY'S OECD MINISTERIAL SPEECH

I WORKED ON THE PLANE COMING OVER AND IN LONDON THIS MORNING ON MY CONTRIBUTION TO THE OECD MINISTERIAL SPEECH. I HAVE DONE TWO SECTIONS: ONE ON THE OECD NATIONS AND THE GLOBAL ECONOMY AND ONE ON NORTH-SOUTH RELATIONS. I AM ASSUMING THAT THE TWO SECTIONS ON WHICH I WORKED WOULD BE PRECEDED BY A SECTION ON INTRA OECD RELATIONS AND FOLLOWED BY A SECTION ON EAST-WEST RELATIONS. I THINK IT IS IMPORTANT TO PLACE NORTH-SOUTH RELATIONS IN THE CONTEXT OF THE BROADER PROBLEM OF MANAGING AN INTERDEPENDENT GLOBAL ECONOMY, WITH ALL THE POLITICAL AND ECONOMIC PROBLEMS THAT THIS IMPLIES.

THERE ARE A NUMBER OF PROPOSALS IN THE NORTH-SOUTH SECTION FOR FURTHER OECD STUDY. THERE MAY BE SOME OBJECTIONS TO THESE IN THE DEPARTMENT BUT I THINK THAT THIS IS WHAT THE SECRETARY WANTS. I HAVE ALSO INCLUDED A PROPOSAL AT THE END OF THE NORTH-SOUTH SECTION CONCERNING A REORGANIZATION OF THE DEVELOPMENT ASSISTANCE COMMITTEE OF THE OECD. I HAVE DISCUSSED THIS WITH ALEX SHAKOW OF AID/PPC, VAN LENNEP OF THE OECD, AND WILLIAMS OF THE DAC. SHAKOW AND VAN LENNEP ARE PUSHING THIS IDEA AND WILLIAMS IS SUPPORTIVE. I THINK THAT THE SECRETARY WILL

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ALSO BE FAVORABLY DISPOSED TOWARD THIS SUQGESTION.

BEGIN TEXT.

SUBJECT: THE OECD NATIONS AND THE GLOBAL ECONOMY

1. THE OECD MEMBER STATES MUST LEAD THE WAY IN THE GLOBAL ECONOMY -- TO CONTAIN INFLATION, TO MAINTAIN STEADY ECONOMIC PROGRESS, TO FACILITATE THE WORLDWIDE FLOW OF TRADE AND INVESTMENT AND TO USE WISELY THE LIMITED NATURAL RESOURCES AT OUR DISPOSAL.

2. BUT WE ARE ONLY PART OF THE GLOBAL ECONOMY. OUR RELATIONS WITH THE DEVELOPING NATIONS AND WITH THE SOCIALIST COUNTRIES ARE ALSO ELEMENTS ON WHICH WE MUST BUILD A STABLE AND PROSPEROUS GLOBAL ECONOMIC ORDER.

3. THE ECONOMIES OF THE INDUSTRIALIZED NATIONS OF THE OECD ARE CLOSELY LINKED TO EACH OTHER. BUT OUR TIES WITH THE DEVELOPING WORLD ARE PROGRESSIVELY DEEPENING PARTICULARLY AS MANY DEVELOPING COUNTRIES EXPAND THEIR TRADING AND FINANCIAL LINKS WITH THE REST OF THE WORLD. AND OUR ECONOMIC TIES WITH THE SOVIET UNION, COMMUNIST CHINA, AND OTHER SOCIALIST COUNTRIES ARE GRADUALLY WIDENING.

4. PERHAPS WE OUGHT TO TAKE SOME TIME TO REFLECT AND PLAN, RATHER THAN SEE OUR INTERDEPENDENCE DEVELOP MORE BY HAPPENSTANCE THAN BY CONSCIOUS DESIGN. LET US BEGIN NOW TO ASK SOME BASIC QUESTIONS. IS GLOBAL INTERDEPENDENCE INEVITABLE? WHAT ARE ITS DANGERS? WHERE ARE THE OPPORTUNITIES IT PRESENTS? CAN OUR INTERNATIONAL POLITICAL INSTITUTIONS DEAL EFFECTIVELY WITH OUR GROWING INTERDEPENDENCE? IS THE PACE OF CHANGE IN INTERNATIONAL ECONOMIC RELATIONS SO GREAT THAT IT THREATENS THE STABILITY AND SURVIVAL OF OUR DOMESTIC INSTITUTIONS? OUR ABILITY TO ANSWER THESE QUESTIONS MAY SOME DAY DETERMINE THE FATE OF MANKIND.

5. WE CANNOT DEAL SIMPLY WITH OUR DAY-TO-DAY PROBLEMS IN INTERNATIONAL AFFAIRS. WE NEED TO LOOK MUCH BEYOND

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THE PRESENT, TO VISUALIZE OUR FUTURE PROBLEMS, TO PREPARE NOW FOR THE POSSIBILITY THAT OUR GROWING ECONOMIC INTERDEPENDENCE MAY CONTAIN THE SEEDS OF OUR OWN DESTRUCTION -- OR THAT IT MAY FORM THE BASIS FOR A NEW INTERNATIONAL UNDERSTANDING AND HARMONIOUS POLITICAL RELATIONS AMONG NATIONS.

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6. WE MAY ALSO NEED TO LOOK BEHIND US TO SEE HOW FAR WE HAVE COME IN ORDER TO TELL HOW FAR WE ARE LIKELY TO GO; TO SEE HOW THE CRISES OF THE PAST -- WAR, ECONOMIC DEPRESSION, AND NATURAL DISASTERS -- HAVE FORCED MEN AND NATIONS TO REORDER THEIR ECONOMIC AND POLITICAL RELATIONSHIPS FOR THE FUTURE. WE NEED TO SEE IF WE CAN REORDER OUR RELATIONSHIPS BEFORE THESE CRISES DRIVE US TO DO IT.

7. IS THE GROWING TREND TOWARD ECONOMIC INTERDEPENDENCE INEVITABLE? THE EVIDENCE FROM THE PAST IS AMBIGUOUS AT BEST. IT SUGGESTS THAT GROWING ECONOMIC INTEGRATION IS NOT INEVITABLE BUT VERY HARD INDEED TO STOP.

8. THE INDUSTRIAL REVOLUTION AND THE GRADUAL IMPROVEMENT IN TRANSPORTATION AND COMMUNICATION TECHNOLOGY LED IN THE LATE NINETEENTH AND EARLY TWENTIETH CENTURIES TO AN EXPLOSION -- IN WORLD TRADE; INTERNATIONAL INVESTMENT, INTERNATIONAL CAPITAL MARKETS; NEW FORMS OF LIMITED LIABILITY BUSINESS ORGANIZATION; MASSIVE MIGRATION SETTLEMENT, AND DEVELOPMENT OF THE NEW LANDS IN NORTH AND SOUTH AMERICA, AUSTRALIA AND NEW ZEALAND; AND COLONIZATION OF AFRICA AND ASIA. THIS PERIOD WAS MARKED BY REMARKABLE ECONOMIC PROGRESS. MORE AND MORE PEOPLES WERE ABLE TO RAISE THEMSELVES ABOVE A BARE SUBSISTENCE LEVEL OF EXISTENCE.

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9. THIS LONG PERIOD OF ECONOMIC GROWTH WAS FRAUGHT WITH PROBLEMS. AND THE PROGRESS MADE DURING THAT PERIOD ALSO LAID THE FOUNDATION FOR TWO WORLD WARS OF DISASTROUS PROPORTIONS AND A MONUMENTAL DEPRESSION BEFORE THE FIRST HALF OF THIS CENTURY WAS FINISHED. EXCEPT FOR A BRIEF PERIOD DURING THE TWENTIES, THE TREND TOWARD GROWING ECONOMIC INTERDEPENDENCE WAS REVERSED.

10. MOST NATIONS SUFFERED SEVERE ECONOMIC SETBACKS FROM THE TURMOIL DURING THE FIRST HALF OF THIS CENTURY. AMERICA SURVIVED, STRONGER AND MORE INDEPENDENT THAN EVER BEFORE, WITHOUT EQUAL IN MILITARY AND ECONOMIC STRENGTH.

11. IN THE 31 YEARS SINCE WORLD WAR II, THE WORLD HAS AGAIN BEGUN TO MARCH ON A PATH OF ECONOMIC GROWTH AND OF GROWING ECONOMIC INTERNATIONALISM. THE WORLD ECONOMY HAS AGAIN BECOME MORE INTEGRATED THROUGH TRADE, INVESTMENT, AND WORLDWIDE DEVELOPMENT OF NATURAL RESOURCES. IN THE FUTURE, THIS PROGRESS WILL CONTINUE IF WE FOLLOW THE APPROPRIATE POLICIES.

12. BUT THERE ARE SOME CRITICAL DIFFERENCES BETWEEN THEN AND NOW. A REVOLUTION IN TRANSPORTATION AND COMMUNICATIONS TECHNOLOGY HAS MADE IT VERY MUCH EASIER FOR BUSINESS TO BE CONDUCTED ACROSS INTERNATIONAL BOUNDARIES. MESSAGES TRAVEL ROUND THE WORLD AT THE SPEED OF LIGHT. MEN TRAVEL FROM CONTINENT TO CONTINENT FASTER THAN A RIFLE BULLET. THE PACE OF ECONOMIC CHANGE AND OF ECONOMIC INTEGRATION IS FAR FASTER THAN EVER BEFORE.

13. EVEN MORE IMPORTANT, THE POST-WAR WORLD HAS WITNESSED THE EMERGENCE OF A WHOLE NEW CLASS OF MODERN NATION STATES IN AFRICA, ASIA AND LATIN AMERICA. THESE NEW STATES, STRIVING FOR EXPRESSIONS OF THEIR OWN IDENTITY, HAVE HEIGHTENED FEELINGS OF NATIONALISM. SENSITIVITIES TO INCURSIONS ON NATIONAL SOVEREIGNTY HAVE INCREASED, GREATLY COMPLICATING THE POLITICAL ENVIRONMENT OF THE WORLD ECONOMY AND HEIGHTENING THE

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DANGERS AND TENSIONS OF DOING BUSINESS ACROSS INTER-

NATIONAL BORDERS.

14. THE GREAT ISSUE THEN IS WHETHER WE CAN AVOID THE CYCLE OF PROSPERITY, DEPRESSION AND WAR. ARE WE DOOMED TO REPEAT THE TRAGIC EVENTS OF BEFORE -- IN WHICH THE ECONOMIC PROGRESS OF THE LATE NINETEENTH AND EARLY TWENTIETH CENTURIES FAILED TO RESOLVE THE TENSIONS AND STRAINS THAT LED TO WORLD WAR I AND II AND THE GREAT DEPRESSION.

15. OUR GROWING ECONOMIC INTERDEPENDENCE CONTAINS THE POSSIBLE SEEDS OF A REPEAT OF THIS CYCLE. IT PRESENTS SOME SERIOUS DIFFICULTIES AND DANGERS.

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16. ADVOCATES OF NATIONAL SOVEREIGNTY ARE DEEPLY OFFENDED BY INCREASING RELIANCE ON FOREIGN TRADE, FOREIGN INVESTMENT AND FOREIGN SOURCES OF RAW MATERIALS. SPECIAL DOMESTIC INTEREST GROUPS FEEL THREATENED BY DISRUPTION OR INJURY FROM PENETRATION BY FOREIGN TRADE. OTHERS USE THE FOREIGN DEVIL THEORY TO BLAME OTHERS FOR THEIR OWN PROBLEMS. GROWING FOREIGN DEPENDENCE MEANS GROWING FEAR OF DISRUPTION IN SUPPLIES FROM ABROAD, FEAR OF VULNERABILITY AND FEAR OF LOSS OF CONTROL OF ONE'S OWN ECONOMY. INTERNATIONAL TRADE AND INVESTMENT DISPUTES CAN EXACERBATE POLITICAL RELATIONS AND RESULT IN A BACKLASH OF RESTRICTIONS ON TRADE AND

INVESTMENT, FURTHERING THE DETERIORATION IN POLITICAL RELATIONS.

17. THESE ARE THE DANGERS OF ECONOMIC INTERDEPENDENCE -- AND THEY ARE SERIOUS. BUT THEY ARE UNLIKELY TO BE AVOIDED BY ATTEMPTING TO STOP THE INEXORABLE MARCH OF ECONOMIC INTERDEPENDENCE. MAN'S DESIRES TO SEEK ECONOMIC OPPORTUNITY WHEREVER HE MAY FIND IT, TO BETTER HIS CONDITION, TO FULFILL HIS DREAMS AND STRETCH HIS IMAGINATION WILL LEAD HIM INEVITABLY TO CLOSER AND INCREASING CONTACT WITH OTHERS. ONLY WAR, GREAT NATURAL DISASTER, OR A COLLAPSE OF THE ECONOMIC SYSTEM WILL STEM THE TIDE AND REVERSE THE TREND TOWARD GROWING ECONOMIC INTEGRATION.

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18 THE OPPORTUNITIES IN AN INTERDEPENDENT WORLD ARE GREAT. WE MUST SEIZE THESE OPPORTUNITIES IF WE ARE TO AVOID THE DANGERS.

19. AN INTERDEPENDENT WORLD ECONOMY OFFERS THE GREATEST POTENTIAL FOR DYNAMISM, GROWTH IN OUTPUT AND PRODUCTIVITY, AND LESSENED INFLATION. THE OPPORTUNITIES FOR GROWTH AND PROSPERITY ARE VASTLY IMPROVED IF A COUNTRY, PARTICULARLY A SMALL OR DEVELOPING COUNTRY, OPENS ITSELF TO INTERNATIONAL TRADE AND INVESTMENT.

20. CONSUMERS, TAXPAYERS, FARMERS AND WORKERS ALL BENEFIT FROM AN INTERDEPENDENT WORLD ECONOMY. THE CONSUMER DOES NOT WANT TO PAY MORE FOR HIS SHOES, CLOTHES, AND APPLIANCES BECAUSE OF RESTRICTIONS ON IMPORTS OR INVESTMENT. THE TAXPAYER DOES NOT WANT TO PAY FOR THE GOVERNMENT SUBSIDIES OR PROGRAMS THAT ARE REQUIRED TO UNDERWRITE THE ENORMOUS COSTS OF VAIN ATTEMPTS TO MAKE AN ECONOMY SELF-SUFFICIENT. THE FARMER DOESN'T WANT RESTRICTIONS PLACED ON EXPORTS OF HIS PRODUCTS NOR TO LOSE THE PROFITS FROM FOREIGN SALES. AND THE WORKER IN GROWING EXPORT INDUSTRIES DOES NOT WANT TO LOSE HIS JOB AS THE RESULT OF RESTRICTIONS ON TRADE AND INVESTMENT.

21. THE POLITICAL FORCE OF THE CONSUMER, THE TAXPAYER, THE FARMER AND THE WORKER ARE FAR MORE IMPORTANT THAN WE HAD EVER REALIZED. WE ARE NOW EMERGING FROM THE MOST SERIOUS WORLDWIDE RECESSION SINCE THE GREAT DEPRESSION OF THE THIRTIES. ALL OF US WOULD HAVE THOUGHT THAT THIS KIND OF RECESSION WOULD HAVE LED TO A GREAT TRADE AND INVESTMENT RELATIONS ARE INTACT. WE ARE POISED FOR ANOTHER STEP FORWARD TO LOWER TRADE

BARRIERS IN THE MULTILATERAL TRADE NEGOTIATIONS IN  
GENEVA.

22. THE UNITED STATES IS COMMITTED TO TAKE THE INTER-  
NATIONAL PATH TO ECONOMIC PROGRESS. BUT IF WE AND THE  
OTHER OECD COUNTRIES ARE TO TAKE THAT PATH, HOW BEST  
CAN WE MANAGE THE PROCESS TO REDUCE OUR VULNERABILITIES,  
OUR FEARS, AND OUR CONCERN THAT INTERDEPENDENCE MEANS  
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A LOSS OF CONTROL OVER OUR OWN DESTINY. HOW ARE WE  
TO REDUCE THE VULNERABILITIES, FEARS AND CONCERNS OF  
OTHER NATIONS OVER A LOSS OF SOVEREIGNTY? HOW ARE WE  
TO AVOID THE TRADE AND INVESTMENT DISPUTES, THE  
DETERIORATION OF POLITICAL RELATIONS AND THE ENORMOUS  
POTENTIAL FOR CONFLICT IN A HIGHLY INTERDEPENDENT WORLD?  
HOW ARE WE TO BUILD A NEW GLOBAL ORDER THAT CAN PROVIDE  
US WITH THE INTERNATIONAL INSTITUTIONS AND THE DOMESTIC  
CAPABILITIES OF DEALING EFFECTIVELY WITH THE PROBLEMS  
OF AN INTERDEPENDENT WORLD.

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EXDIS

NORTH-SOUTH RELATIONS

23. CLEARLY WE MUST PROVIDE A NEW ROLE FOR THE DEVELOPING COUNTRIES IN THE WORLD ECONOMY. THEIR ASPIRATIONS CANNOT BE DENIED. ALTHOUGH INTERNAL POLICIES IN THE DEVELOPING COUNTRIES WILL BE THE MOST IMPORTANT DETERMINANT OF THEIR DEVELOPMENT, THE INTERNATIONAL ENVIRONMENT CAN EITHER FACILITATE OR FRUSTRATE A DEVELOPING COUNTRY'S OWN EFFORTS. AN INTERNATIONAL ORDER CANNOT SURVIVE UNLESS IT PROVIDES EQUAL OPPORTUNITY FOR ALL NATIONS TO PARTICIPATE IN THE BENEFITS OF WORLD PROSPERITY AND GROWTH.

24. THE OECD NATIONS HAVE MUCH TO OFFER TO THE DEVELOPING WORLD TO ASSIST THEM IN THEIR DEVELOPMENT EFFORTS. OUR ABILITY TO CONTAIN INFLATION AND ACHIEVE A STABLE ECONOMY RECOVERY OFFERS THE DEVELOPING COUNTRIES NEW HOPE FOR RESOLVING THEIR SERIOUS BALANCE OF PAYMENTS PROBLEMS AND SUSTAINING THEIR OWN ECONOMIC GROWTH. REDUCTIONS IN OUR RATE OF INFLATION MODERATES THE RISING COSTS OF THEIR IMPORTS. OUR ECONOMIC RECOVERY OFFERS THE DEVELOPING COUNTRIES AN EXPANDING MARKET FOR THEIR EXPORTS. THE STRENGTH OF OUR CAPITAL MARKETS AND INTERNATIONAL ACCESS TO THOSE MARKETS HAS ENABLED MANY DEVELOPING COUNTRIES TO SUSTAIN ECONOMIC GROWTH DESPITE MASSIVE INFLATION AND RECESSION IN THE DEVELOPED WORLD IN 1974 AND 1975.  
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25. AT THE SAME TIME, THE DEVELOPING COUNTRIES CAN MAKE EXTREMELY IMPORTANT CONTRIBUTIONS TO THE HEALTH AND STABILITY OF THE GENERAL GLOBAL ECONOMY. THE DEVELOPING COUNTRIES ARE IMPORTANT SUPPLIERS OF FOOD, ENERGY, AND RAW MATERIALS, VITAL ELEMENTS OF THE WORLD ECONOMY. THEIR POTENTIAL TO EXPAND PRODUCTION IS EVEN GREATER. THE DEVELOPING COUNTRIES PROVIDE A LARGE AND GROWING MARKET FOR THE PRODUCTS OF THE INDUSTRIALIZED WORLD. THEY ARE AN INCREASINGLY INTEGRAL PART OF THE INTERNATIONAL FINANCIAL SYSTEM AND THEIR FINANCIAL HEALTH IS AN IMPORTANT COMPONENT OF OURS.

26. AND THE DEVELOPING COUNTRIES ARE IMPORTANT TO US ON POLITICAL AND SECURITY GROUNDS. REGIONAL CONFLICT IN THE DEVELOPING WORLD CAN BE A HOTBED FOR GREAT POWER CONFRONTATION. THE MULTILATERAL DIPLOMACY OF THE DEVELOPING COUNTRIES HAS BECOME VERY EFFECTIVE AND THE ABILITY OF INTERNATIONAL INSTITUTIONS TO OPERATE EFFECTIVELY DEPENDS ON THE COOPERATION OF THE DEVELOPING COUNTRIES.



27. THE RELATIONSHIP BETWEEN THE INDUSTRIALIZED WORLD AND THE DEVELOPING WORLD IS A RECIPROCAL ONE. BENEFITS -- AND THE COSTS -- FLOW BOTH WAYS. NEITHER WE NOR THEY CAN BE AS PROSPEROUS ALONE AS WE CAN BE TOGETHER. NEITHER WE NOR THEY CAN MAINTAIN A HARMONIOUS AND PEACEFUL WORLD ORDER ALONE. WE MUST WORK TOGETHER.

28. HOW THEN CAN WE BUILD UPON THIS RELATIONSHIP BETWEEN DEVELOPED AND DEVELOPING WORLD? HOW CAN WE STRENGTHEN OUR TIES TO MAKE THEM MORE EFFECTIVE IN PROMOTING INTERESTS OF BOTH?

29. LET ME SUGGEST FOUR WAYS IN WHICH THIS MIGHT BE ACCOMPLISHED. THE SPIRIT IN WHICH THESE SUGGESTIONS ARE MADE IS TO ATTEMPT TO CONTRIBUTE TO AN AGENDA FOR THE FUTURE OF NORTH-SOUTH RELATIONS -- TO LOOK BEYOND THE IMMEDIATE ISSUES OF TODAY AND EVEN BEYOND THE CRISES OF TOMORROW -- TO SEE WHETHER WE CAN ESTABLISH NORTH-SOUTH RELATIONS ON A FIRM BASIS AND NOT AS A SERIES OF REACTIONS TO SPECIFIC CRISIS SITUATIONS.  
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30. FIRST, WE NEED TO FIND NEW WAYS TO MAKE OUR OWN DOMESTIC ECONOMIES LESS VULNERABLE TO THE SHOCKS AND SWINGS OF EXPOSURE TO INTERNATIONAL EVENTS, PARTICULARLY THOSE THAT DERIVE IN LARGE MEASURE FROM OUR INTERRELATIONSHIPS WITH THE DEVELOPING COUNTRIES.

31. DEPENDENCE ON IMPORTS OR EXPORTS IS NOT THE SAME AS VULNERABILITY. IF AN ECONOMY AND ITS INSTITUTIONS CAN ADJUST TO CHANGES IN TRADE OR INVESTMENT PATTERNS OR TO DISRUPTIONS IN SUPPLY, VULNERABILITY IS REDUCED ALTHOUGH DEPENDENCE MAY REMAIN HIGH.

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32. MANY FEARS HAVE BEEN EXPRESSED ABOUT RISING IMPORTS FROM DEVELOPING COUNTRIES. YET THE ABILITY OF THE DEVELOPING COUNTRIES TO ACHIEVE RAPID ECONOMIC PROGRESS DEPENDS ON ACCESS TO INDUSTRIALIZED COUNTRY MARKETS MORE THAN ANYTHING ELSE. IF THE DEVELOPING COUNTRIES ARE TO EARN THE FOREIGN EXCHANGE TO PAY FOR CRITICAL IMPORTS, THEY MUST HAVE THE MEANS TO INCREASE THEIR EXPORTS.

33. IT IS GRATIFYING TO NOTE THAT THE AMERICAN ECONOMY HAS ADJUSTED TO A RAPID INCREASE IN TRADE DEPENDENCE -- FROM BLANK TO BLANK MOST OF THAT INCREASE COMING FROM THE DEVELOPING WORLD. THIS HAS BEEN ACCOMPLISHED NOT ONLY BY THE ADAPTIVE POWERS OF THE AMERICAN ECONOMY BUT THROUGH A CONSCIOUS GOVERNMENT PROGRAM OF ADJUSTMENT ASSISTANCE. THIS YEAR, UNDER THE NEW TRADE ACT OF 1974, WE WILL HAVE SPENT MORE ON ADJUSTMENT ASSISTANCE PROGRAMS THAN IN THE PREVIOUS FOURTEEN YEARS OF UNITED STATES TRADE ADJUSTMENT ASSISTANCE PROGRAMS. THE AVAILABILITY OF ADJUSTMENT ASSISTANCE HAS BEEN A MAJOR FACTOR IN SELLING UNITED STATES TRADE POLICY IN AN EXPANSIONIST DIRECTION.

34. WE MUST ALSO BE ABLE TO ADJUST TO THE DANGERS OF HIGH LEVELS OF IMPORT DEPENDENCE ON ENERGY, FOOD, AND RAW MATERIALS. NO NATION CAN BE COMPLETELY SELF-SUFFICIENT IN ALL ITS MATERIAL NEEDS. AND THE COSTS OF ATTEMPTING TO ACHIEVE SELF-SUFFICIENCY ARE LARGE  
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BEYOND IMAGINATION.

35. YET IMPORTER FEARS OF DISRUPTION IN SUPPLIES AND FEARS OF SHARP PRICE INCREASES, UNWARRANTED BY UNDERLYING ECONOMIC CONDITIONS, ARE EVER PRESENT. CONVERSELY THE EXPORTER FEARS A LOSS OF MARKETS OR SHARP PRICE DROPS ALSO UNWARRANTED BY UNDERLYING ECONOMIC CONDITIONS.

36. ONE WAY IN WHICH THESE FEARS MIGHT BE REDUCED IS THROUGH STOCKPILING. THE KNOWN AND SURE EXISTENCE OF STOCKPILES, THAT CAN BE RELEASED WHEN PRICES ARE VERY HIGH OR WHEN THERE IS AN ACTUAL OR THREATENED DISRUPTION IN SUPPLY OR AUGMENTED WHEN PRICES ARE LOW, MAY BE THE GREATEST PROTECTION AGAINST VULNERABILITY TO IMPORT OR EXPORT DEPENDENCE ON THESE BASIC ITEMS.

37. IN ENERGY, THE UNITED STATES HAS EMBARKED ON A PROGRAM OF OIL STOCKPILING. THE MEMBERS OF THE INTERNATIONAL ENERGY AGENCY HAVE ESTABLISHED AN EMERGENCY OIL-SHARING PROGRAM BASED ON THE EXISTENCE OF STOCKPILES IN MEMBER NATIONS. CAN WE EXTEND THESE PRINCIPLES TO A BROAD INTERNATIONAL OIL STOCKPILING PROGRAM?

38. IN FOOD, THE UNITED STATES HAS PROPOSED AN INTERNATIONAL GRAIN RESERVES SCHEME. THE NEGOTIATIONS ON THIS SCHEME HAVE NOT PROGRESSED MUCH AT ALL. WHAT NEEDS TO BE DONE TO GET THESE NEGOTIATIONS MOVING? WHEN IS THE RIGHT TIME AND THE RIGHT FORUM FOR THESE NEGOTIATIONS?

39. IN RAW MATERIALS, THE UNITED STATES MADE IMPORTANT PROPOSALS AT THE UNCTAD CONFERENCE IN NAIROBI. WE BELIEVE THAT BUFFER STOCKS CAN BE AN EFFECTIVE MEANS IN SOME CASES FOR ALLEVIATING PRICE INSTABILITY AND FOR PROVIDING ASSURANCE OF ACCESS TO SUPPLIES AND MARKET REGARDLESS OF THE BOOM AND BUST CYCLES OF THE INTERNATIONAL ECONOMY. IN SOME INSTANCES AN INTERNATIONAL BUFFER STOCK IS THE APPROPRIATE MEANS FOR DEALING WITH THESE PROBLEMS. IN OTHERS NATIONAL STOCKS, SUBJECT TO INTERNATIONAL GUIDELINES CONCERNING RELEASE AND AC-

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QUISITION,MAY BE THE APPROPRIATE KIND OF ARRANGEMENT.

40. THE UNITED STATES PROPOSES THAT THE OECD ATTACH HIGH PRIORITY TO AN ANALYSIS OF THE WAYS IN WHICH WE MIGHT ADAPT OUR ECONOMIES TO REDUCE THE VULNERABILITY OF OUR ECONOMIES IN AN INTERDEPENDENT WORLD. THIS SHOULD INCLUDE AN ANALYSIS AND AN ATTEMPT TO REACH AGREEMENT ON ACCEPTABLE MEANS TO ADJUST ECONOMIES TO FOREIGN TRADE IN MANUFACTURES THROUGH ADJUSTMENT ASSISTANCE TO WORKERS, TAX AND SUBSIDY INCENTIVES TO PRIVATE FIRMS, GENERAL MANPOWER AND SOCIAL WELFARE PROGRAMS, INCOME MAINTENANCE PROGRAMS AND THE LIKE. THE CONCLUSIONS OF THIS STUDY SHOULD BE DIRECTLY USEFUL FOR THE MULTILATERAL TRADE NEGOTIATIONS.

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41. THE OECD SHOULD ALSO TAKE A CAREFUL LOOK AT STOCKPILING OF RAW MATERIALS AS A MEANS OF IMPROVING ECONOMIC SECURITY. PARALLEL TO THE TIMETABLE FOR A CASE-BY-CASE EXAMINATION OF COMMODITY PROBLEMS, AGREED TO AT UNCTAD LAST MONTH, THE OECD SHOULD EXAMINE THE ROLE OF BUFFER STOCKS FOR EACH OF THESE COMMODITIES, INCLUDING THE FEASIBILITY AND DESIRABILITY OF BOTH INTERNATIONAL BUFFER STOCKS AND NATIONAL BUFFER STOCKS SUBJECT TO INTERNATIONAL GUIDELINES.

42. SECOND, WAYS MUST BE FOUND TO FACILITATE THE FLOW OF CAPITAL MANAGEMENT AND TECHNOLOGY INTO THE DEVELOPING WORLD TO FACILITATE THEIR DEVELOPMENT OF NATURAL RESOURCES.

43. THE MOST IMPORTANT WORLD RESOURCE PROBLEM IS TO PRODUCE ADEQUATE FOOD. IN AN OPEN WORLD ECONOMY, IF THERE ARE SERIOUS FOOD SHORTAGES IN ONE PLACE, THE IMPACT IN TERMS OF HIGHER PRICES IS FELT AROUND THE WORLD. THE POOR AND MIDDLE INCOME GROUPS SUFFER THE MOST FROM FOOD SHORTAGES OR HIGH FOOD PRICES.

44. THE UNITED STATES HAS PROPOSED A BROADENED PROGRAM OF ASSISTANCE FOR AGRICULTURAL DEVELOPMENT. WE HAVE SUPPORTED THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT. OUR BILATERAL AID PROGRAM PLACES HEAVY EMPHASIS ON ENHANCING FOOD PRODUCTION. AND WE SUPPORT THE MULTILATERAL EFFORTS OF THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANK TO ASSIST THE PRODUCTION OF

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FOOD.

45. POLITICAL UNCERTAINTY AND FEAR OF EXPROPRIATION HAVE REDUCED THE FLOW OF CAPITAL MANAGEMENT AND TECHNOLOGY TO DEVELOP COMMERCIALY VIABLE RESOURCE PROJECTS IN DEVELOPING. EXPLORATION AND DEVELOPMENT FOR MINERALS, OIL, AND NATURAL GAS HAS BECOME INCREASINGLY CONCENTRATED IN THE DEVELOPED WORLD. THE COSTS OF DEVELOPING LOW GRADE DEPOSITS WITH DIFFICULT ACCESS AND OF BUILDING ENVIRONMENT-WRECKING PROCESSING PLANTS ARE ENORMOUS, MANY TIMES MORE THAN NECESSARY. THE DEVELOPING NATIONS SUFFER BECAUSE THEY LOSE THE EXPORT AND TAX REVENUES AND THE JOBS THAT ACCOMPANY INVESTMENT IN RESOURCES AND WE SUFFER FROM EXCESSIVELY HIGH PRICES AND COSTS WHICH BENEFIT NO ONE.

46. THE INVESTMENT IN WORLD RESOURCES NECESSARY TO FUEL THE GLOBAL ECONOMY OVER THE LONGER RUN WILL NEVER TAKE PLACE IF DEVELOPING COUNTRIES FEEL THAT THEY CANNOT RECEIVE A FAIR SHARE OF THE BENEFITS OF DEVELOPMENT OF THEIR NATURAL RESOURCES AND IF PRIVATE INVESTORS FEEL THAT THEY CANNOT RECEIVE A FAIR RETURN ON THEIR INVESTMENT.

47. THE UNITED STATES PROPOSED IN NAIROBI LAST MONTH THAT WE ESTABLISH AN INTERNATIONAL RESOURCE BANK TO FACILITATE THE FLOW OF CAPITAL MANAGEMENT, AND TECHNOLOGY TO RESOURCE INVESTMENTS IN DEVELOPING COUNTRIES AND TO HELP ASSURE THAT THE BENEFITS OF THESE INVESTMENTS ARE SHARED EQUITABLY. THE INTERNATIONAL RESOURCE BANK MIGHT ALSO BE A MECHANISM TO FACILITATE THE FINANCING OF BUFFER STOCKS. THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION SHOULD ELABORATE THIS PROPOSAL DURING THE LAST HALF OF THIS YEAR.

48. THIRD, WE NEED TO ESTABLISH BETTER AND MORE BROAD INTERNATIONAL "RULES OF THE GAME" FOR INTERNATIONAL TRADE, INVESTMENT, AND MONETARY RELATIONS. FREEDOM IS NOT ANARCHY, NEITHER IN THE DOMESTIC NOR IN THE INTERNATIONAL SPHERE. THE ABILITY OF ANY NATION TO EXERCISE ITS SOVEREIGN RIGHTS DEPENDS ON ITS SUBMISSION AND THE SUBMISSION OF OTHERS TO ACCEPTED NORMS OF BEHAVIOR.

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INTERNATIONAL AGREEMENTS, CODES, GUIDELINES, AND PRIN-

CIPLES ARE ALL PART OF THE PROCESS OF DEFINING ACCEPTED  
MODES OF BEHAVIOR. CONSULTATION AMONG STATES AND IN  
SOME CASES SANCTIONS OR RETALIATION MAY BE REQUIRED  
TO ENSURE THAT THE NORMS ARE OBSERVED.

49. AS THE GLOBAL ECONOMY HAS BECOME MORE INTER-  
DEPENDENT, THE NEED INTENSIFIES TO ESTABLISH AND STRENG-  
THEN INTERNATIONAL BEHAVIOR NORMS AND THE POLITICAL  
INSTITUTIONS TO INTERPRET AND MONITOR COMPLIANCE.  
YET OUR INTERNATIONAL POLITICAL INSTITUTIONS HAVE  
EVOLVED AT A PACE FAR SLOWER THAN THE SPEED OF ECON-  
OMIC CHANGE AND THE GROWTH OF ECONOMIC INTERDEPENDENCE.  
IF WE ARE EVER TO AVOID DECISION BY CRISIS, WE MUST

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DEVELOP THE INSTITUTIONS THAT CAN GUIDE AND SHAPE AN  
ORDERLY PROCESS OF CHANGE.

50. IN TRADE, WE NEED TO DEVELOP RULES OF THE GAME THAT  
DEVELOPING COUNTRIES AS WELL AS DEVELOPED COUNTRIES CAN  
ACCEPT. WE COULD LIKE TO INTEGRATE THE DEVELOPING COUN-  
TRIES MORE FULLY INTO THE GATT FRAMEWORK WHICH PROMOTES  
OPEN, NON-DISCRIMINATORY ACCESS TO MARKETS. THE  
DEVELOPING COUNTRIES NEED THIS ACCESS IF THEY ARE TO  
HAVE SIGNIFICANT DEVELOPMENT OPPORTUNITIES. AND THE  
DEVELOPED NATIONS CAN BENEFIT FROM GROWING OPEN LDC  
MARKETS.

51. THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA OFFER THE GREATEST HOPE OF INTEGRATING THE DEVELOPING COUNTRIES INTO THE WORLD TRADING SYSTEM. THE DEVELOPING COUNTRIES ASK FOR SPECIAL AND DIFFERENTIATED TREATMENT IN ORDER TO TAKE ACCOUNT OF THEIR DEVELOPMENT NEEDS. THIS IS A REASONABLE REQUEST, PROVIDED THAT THE DEVELOPING COUNTRIES ARE WILLING TO ASSUME GRADUALLY THE FULL RESPONSIBILITIES OF PARTICIPATION IN THE WORLD TRADING SYSTEM.

52. THE DEVELOPING COUNTRIES ARE ALSO CONCERNED ABOUT DISCRIMINATORY TREATMENT AND LIMITED ACCESS TO MARKETS FOR PRODUCTS OF SPECIAL IMPORTANCE TO THEM. WE ARE COMMITTED TO THE GOAL OF OPEN, NON-DISCRIMINATORY ACCESS TO MARKETS AND ARE LOOKING FOR WAYS TO REDUCE BARRIERS

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TO LDC EXPORTS IN THE TROPICAL PRODUCTS NEGOTIATIONS, OUR PROPOSAL FOR TARIFF CUTS AND OUR PROPOSALS ON NON-TARIFF BARRIERS IN GENEVA. WE URGE THE OECD TO CONDUCT A THOROUGH STUDY TO DETERMINE THE BARRIER

TO LDC TRADE IN DEVELOPED COUNTRIES AND FOR WAYS TO REMOVE ANY DISCRIMINATORY BARRIERS THAT MAY EXIST.

53. IN INVESTMENT, THE OECD NATIONS HAVE PROMULGATED A CODE FOR BEHAVIOR OF BOTH FOREIGN INVESTORS AND HOST GOVERNMENTS. THIS WORK NEEDS TO BE EXTENDED TO INCLUDE THE DEVELOPING COUNTRIES. INVESTMENT PROBLEMS ARE MOST ACUTE IN THE DEVELOPING WORLD. AND DISCUSSIONS OF INVESTMENT PROBLEMS HAVE ALREADY BEGUN ON A GLOBAL BASIS WITH THE FIRST MEETING THIS SPRING OF THE U.N. COMMISSION ON MULTINATIONAL ENTERPRISES.

54. IN INTERNATIONAL MONETARY RELATIONS, SIGNIFICANT PROGRESS WAS MADE IN ESTABLISHING A NEW SET OF RULES AT THE MEETING OF THE INTERIM COMMITTEE OF THE INTERNATIONAL MONETARY FUND, IN JAMAICA LAST JANUARY. THESE NEW RULES PROVIDED A FRAMEWORK FOR EXCHANGE RATE FLEXIBILITY WHICH HAS GREATLY IMPROVED THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM. BUT A NUMBER OF QUESTIONS HAVE BEEN LEFT UNANSWERED.

55. THE DEVELOPING COUNTRIES AS WELL AS OTHER DEVELOPED COUNTRIES HAVE A GREAT ECONOMIC STAKE IN THE INTERNATIONAL SYSTEM. WIDE FLUCTUATIONS IN EXCHANGE RATES GREATLY COMPLICATE THE SETTING OF NATIONAL ECONOMIC POLICY. THEY DISCOURAGE TRADE. THEY DISTORT INVESTMENT DECISIONS. THEY IMPOSE COSTS ON MONEY AND CAPITAL MARKET INSTITUTIONS AND COMPANIES THAT DEAL IN A VARIETY OF CURRENCIES.

FAILURE TO HAVE SOME BASIC CONTROL OVER INTERNATIONAL LIQUIDITY EXACERBATES INFLATIONARY TRENDS IN ALL COUNTRIES.

56. THUS WE HAVE REASON TO ASK - HOW CAN THE EXCESSIVE FLUCTUATIONS IN EXCHANGE RATES BE MODERATED? HOW CAN WE BETTER CONTROL INTERNATIONAL LIQUIDITY? SHOULD WE ENHANCE THE USAGE OF SPECIAL DRAWING RIGHTS (SDRS)  
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AS A RESERVE ASSET OR AS A TRANSACTION, SETTLEMENT OR INTERVENTION CURRENCY? WHAT DOES AMERICA - AND OTHER COUNTRIES GAIN OR LOSE FROM THE USE OF THE DOLLAR AS THE MAIN RESERVE ASSET AND INTERNATIONAL INTERVENTION AND TRANSACTION CURRENCY? THESE QUESTIONS ARE FUNDAMENTAL TO THE FUNCTIONING OF THE GLOBAL ECONOMY. THEY HAVE ENORMOUS POLITICAL IMPLICATIONS. AND IN DECIDING THE ANSWERS WE NEED THE EFFECTIVE PARTICIPATION OF THE DEVELOPING COUNTRIES.

57. FOURTH, WE NEED TO FIND A NEW MEANS TO ATTACK THE PROBLEM OF POVERTY, SO PREVALENT IN THE DEVELOPING WORLD. WE NEED TO FIND WAYS TO ASSURE THAT CONCESSIONAL FOREIGN ASSISTANCE AND OTHER MECHANISMS FOR INDIRECT RESOURCE TRANSFER SUCH AS TARIFF PREFERENCES ARE BENEFITTING

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THE POOREST. SUPPORT FOR CONCESSIONAL FOREIGN AID IN OUR COUNTRIES DEPENDS VERY MUCH ON THE BELIEF THAT POORE ARE BEING HELPED.

58. THERE ARE A NUMBER OF WAYS IN WHICH CONCESSIONAL FOREIGN ASSISTANCE MIGHT BE FOCUSED ON POVERTY. IT CAN BE FOCUSED ON THE POOREST COUNTRIES OR ON COUNTRIES THAT ARE COMMITTED TO POVERTY PROGRAMS. IT CAN BE EARMARKED FOR BASIC NEEDS SUCH AS FOOD, MEDICINE, HOUSING, AND CLOTHING FOR THE POOR WITHIN A COUNTRY, OR FOR BROAD SOCIAL PROGRAMS SUCH AS RURAL DEVELOPMENT, LOW INCOME HOUSING, AND EDUCATION. WE URGE THE OECD TO EXAMINE WAYS THAT RESOURCES TRANSFERS MAY BE AIMED EFFECTIVELY ON THE PROBLEMS OF THE POOREST.

59. I HAVE ELABORATED FOUR TOPICS WHICH OUGHT TO FORM A MAJOR PART OF THE AGENDA FOR NORTH-SOUTH RELATIONS DURING THE NEXT DECADE:

- REDUCING VULNERABILITY TO EXTERNAL ECONOMIC SHOCKS BY FACILITATING ADJUSTMENT IN DOMESTIC ECONOMY AND CREATING STOCKS FOR ENERGY, FOOD, AND RAW MATERIALS;
- FACILITATING THE FLOW OF CAPITAL, MANAGEMENT, AND TECHNOLOGY TO DEVELOP WORLD RESOURCES ON A MORE RATIONAL BASIS;
- DEVELOPING AND STRENGTHENING RULES OF THE GAME FOR TRADE, INVESTMENT, AND MONETARY RELATIONS TO ASSURE MORE EFFECTIVE DEVELOPING

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COUNTRY PARTICIPATION; AND

- MAKING CONCESSIONAL FOREIGN ASSISTANCE MORE EFFECTIVE IN DEALING WITH PROBLEMS OF POVERTY.

60. THESE TOPICS AND OTHERS ARE PART OF A NEW AND CONTINUING DIALOGUE -- IN THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION IN PARIS AND RECENTLY AT THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT IN NAIROBI. THEY GO FAR BEYOND THE TRADITIONAL EMPHASIS ON FOREIGN AID AS THE MAIN ELEMENT IN RELATIONS BETWEEN NORTH AND SOUTH. FOREIGN AID IS STILL AN IMPORTANT AND ESSENTIAL PART OF A MORE BROAD RELATIONSHIP BETWEEN DEVELOPED AND DEVELOPING COUNTRIES. BUT THIS RELATIONSHIP IS AND SHOULD MOVE AWAY FROM THE OLD PATERNALISTIC, DONOR-CLIENT FORM OF INTERACTION BETWEEN DEVELOPED AND DEVELOPING. THE EMPHASIS NOW MUST SHIFT TOWARD SOLUTIONS TO PROBLEM THAT PROMISE MUTUAL BENEFIT AND PROVIDE FOR

GREATER ECONOMIC SECURITY OF BOTH DEVELOPED AND DEVELOPING COUNTRIES.

61. THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT SHOULD REFLECT THIS NEW SET OF PROBLEMS AND NEW RELATIONSHIPS. THE OECD HAS AN EFFECTIVE ORGANIZATION, THE DEVELOPMENT ASSISTANCE COMMITTEE, WITH ITS OWN SPECIAL SECRETARIAT, THAT DEALS LARGELY WITH THE PROBLEM OF DONOR POLICIES ON RESOURCE TRANSFERS TO THE DEVELOPING WORLD. AND LAST YEAR WE ESTABLISHED AN AD HOC HIGH LEVEL NORTH-SOUTH COMMITTEE TO DEAL BROADLY WITH DEVELOPMENT ISSUES. THE TIME HAS COME TO RE-EXAMINE THESE ORGANIZATIONS, AND TO DEAL MORE INTENSIVELY AND DEEPLY WITH THE SUBSTANTIVE ISSUES.

62. THE UNITED STATES PROPOSES THAT A MINISTERIAL LEVEL MEETING OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT BE CALLED SOMETIME NEXT YEAR TO DEAL EXCLUSIVELY WITH BOTH THE SUBSTANCE OF THE NORTH-SOUTH PROBLEM AND THE ORGANIZATIONAL ISSUE FOR THE OECD. WE URGE THE OECD SECRETARIAT TO ENSURE THAT THE APPROPRIATE PAPERS ON SUBSTANCE AND ORGANIZATION ARE PREPARED AND RECOMMENDATIONS PRESENTED TO THE MINISTERS.

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